provision of goods, utilities and services from both the public and private sectors of the economy, and may interact at a distance from the points at which they are generated. A computer terminal located in Nebraska may facilitate living in New York, and thereby increase the competition for desirable sites in that city. But the city must be fed—and this increases competition for desirable cattle country in Nebraska!

These advantages are a social surplus that comes as a bonus, both from the bounty of nature and from the savings in effort and the efficiencies that stem from the very existence of the corporate community. They constitute what is termed economic rent, and are potentially quantifiable by the market.

Rent is a surplus that can be either channelled into community enrichment or else, by default, can be privately appropriated through the capitalization of land rentals into land price. The mad scramble for land is really the mad scramble for rental advantage, anticipating that its growth will be capitalized, unearned and tax-free. A capitalization upon community development

KENNETH GRIGG, a *Land & Liberty* correspondent from Canterbury, Victoria, explains why many Australians believe that "the socialization of site rent should be mandatory fiscal policy: it is the price to be paid for economic freedom".

it indeed is; a gain in capital as the outcome of labour exertion—the rendering of service—it is not. But such are the ethics of society, that it is highly inconvenient to draw the distinction! And it is the rendering of service that gets taxed! At any rate, land price, once firmly seized, soars speculatively ahead of the ability of real production to sustain it. It is thus at one and the same time the causative forerunner of economic recessions and the barrier which explains the chronic under-employment of labour and capital and the consequent international depression of trade through "protection".

A tax on rent as a surplus is a tax on no man, neither on his efforts nor on his wealth accumulated through those efforts. It is a re-apportionment of the obligation to contribute to public revenue; people are required to pay not upon what they have contributed to the communtiy but upon what the community contributes to them. And precisely because it is a tax on a surplus, a tax on rent cannot enter into the unit price of goods—quite unlike taxes on labour and capital. To the extent, therefore, that rent flows to the community, not only will capitalized appreciation in land prices be prevented, but the taxation of labour and of productively-invested capital and of goods and services will be rendered unnecessary.

A tax on rent is a tax on a surplus that can be identified and cannot be hidden, for the privilege of the ownership of land title can be identified and thus held to account.

The economic benefits of all social and scientific advance is ultimately and inevitably capitalized into the price demanded for land unless the annual rental of land is continuously socialized. *The socialization of site rent* should therefore be mandatory fiscal policy. *It is the price to be paid for economic freedom.*

The tax base: annual values v. capital values

TAXES on land can be based on capital (selling) values or annual (rented) values. Britain is familiar with annual values because they are the basis of local rates. Rate assessments are based on the composite value of land and buildings in their existing condition. The annual value of a piece of land is the gross rent that can be obtained for it on the open market. It represents the productive advantages of location and natural resource enjoyed by the site itself. The annual rent is a claim on current production, being the share of production due to site factors; it is not constant, but changes to reflect the prosperity of the community. The capital value, that is the selling price, is derived from the annual value. In essence, it is the capitalisation of the rent, the capital sum which would have to be invested to yield an equivalent amount in interest. In practice, there are other influences on capital values, making them less stable than annual values.

Simple calculations show how interest rates affect capital values. At a 10% rate of interest, £1,000 would be necessary to give an annual yield of £100. If the interest rate were 5%, then the capital sum required would be £2,000. Thus, capital values can change with interest rates whilst annual values remain unchanged. Capital values rise when money is "cheap".

AUSTRALIA'S authorities use capital values as the basis for their property taxes. This method has serious disadvantages; annual values are superior, reports –

HENRY LAW

Monetary inflation, and future expectations, however, do modify the effects of this principle.

In the hope of higher rentals in the future, capital values rise beyond what would be necessary to yield annual rents at current rates of interest. Rates of return on land are lower than the prevailing rate of interest on other investments, reflecting the greater security of land and the expectation of future increase. This advance in capital values is the speculative element, and changes according to market factors. The extreme example is when land is subject to a wave of panic buying; prices rise rapidly, a phenomenon that occurs also with certain commodities such as precious metals.

Land prices rise more easily than they fall. When demand is slack, landowners will, if they can, hold on in the hope of a recovery, and land will simply be kept off the market.

Thus, in a general way, capital values reflect the annual values from which they are derived. But in practice it is found that whilst annual values change steadily, capital values show a stepwise trend, short periods of rapid increase alternating with longer periods of little change.

The instability of capital value makes them unreliable as a measure of land values. But there is a more fundamental reason why a tax on land values should be based on annual rather than capital values. The tax is the proportion of the gross land rent which is taken by the public authority; taxation has no effect on the annual value itself. There is, however, a fall in capital values due to the tax. It can be seen most clearly in the extreme case where the whole of the annual value of the land is taken in tax; no-one would then wish to purchase land for there would be no rental yield to the owner, and the capital value of land would be nil. For lower rates of tax, capital values would fall by a proportionate amount—if 10% of the annual yield is taken in tax, other things remaining the same, capital values fall by 10% also. Where capital values are used for assessing a tax on land values, the imposition of the tax causes the capital values to diminish; the tax erodes its own base. Unless rates of tax are very low, capital values are unsuitable as a basis for land value taxation.